GREAT KEI MUNICIPALITY

Great Kei Local Municipality
(Registration number EC123)
Annual Financial Statements
for the year ended 30 June 2017

General Information

Nature of business and principal activities	Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998) The municipality's operations are governed by: -Municipal Finance Management Act no. 56 of 2003 -Municipal Structures Act no.117 of 1998 -Municipal Systems Act no. 32 of 2000 and various other acts and regulations.
List of councillors	
Mayor	Tshetsha L.D (Speaker)
Chief Whip	Ndabambi-Gavumente L
	Tekile N
Councillors	Gqomoroshe T
	Jacobs SM
	Nzuzo Z
	Mevana NV
	Mgema NP
	Khantshashe N
	Mhlontlo L
	Ndoro W
	Ndolose T
	Wood B
	Tonze L
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mosala M L
Accounting Officer	Sikhulu Nqwena I
Registered office	17 Main Street Komga 4950
Bankers	Standard Bank Limited
Auditors	Auditor General of South Africa

Index

The reports and statements set out below comprise the annual financial statements presented to the council:

Index

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the year then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 65, which have been prepared on the going concern basis, were approved and signed by:

Sikhulu Nqwena I
Municipal Manager

Statement of Financial Position as at 30 June 2017

	Note(s)	2017 R	2016 R
Assets			
Current Assets			
Inventories	3	184 246	174 738
Receivables from exchange transactions	4	11 514 510	6 942 421
Receivables from non-exchange transactions	5	4 484 275	4 310 077
VAT receivable	6	2 841 545	-
Cash and cash equivalents	7	52 952	2 155 926
		19 077 528	**13 583 162**
Non-Current Assets			
Investment property	8	71 543 700	71 543 700
Property, plant and equipment	9	269 894 503	302 251 029
Intangible assets	10	75 044	113 926
Heritage assets	11	36 000	-
		341 549 247	**373 908 655**
Non-Current Assets		341 549 247	373 908 655
Current Assets		19 077 528	13 583 162
Total Assets		**360 626 775**	**387 491 817**
Liabilities			
Current Liabilities			
Other financial liabilities	12	798 185	487 267
Finance lease obligation	13	288 874	263 987
Payables from exchange transactions	14	41 156 752	23 927 232
VAT payable	47	-	928 321
Employee benefit obligation	15	713 000	707 000
Unspent conditional grants and receipts	16	48 606	4 696
Bank overdraft	7	314 657	-
		43 320 074	**26 318 503**
Non-Current Liabilities			
Other financial liabilities	12	700 048	1 023 508
Finance lease obligation	13	42 647	331 520
Employee benefit obligation	15	9 518 000	8 257 000
Provisions	17	9 752 795	9 167 022
		20 013 490	**18 779 050**
Non-Current Liabilities		20 013 490	18 779 050
Current Liabilities		43 320 074	26 318 503
Total Liabilities		**63 333 564**	**45 097 553**
Assets		360 626 775	387 491 817
Liabilities		(63 333 564)	(45 097 553)
Net Assets		**297 293 211**	**342 394 264**
Accumulated surplus		297 293 211	342 394 264

* See Note 39

Statement of Financial Performance

	Note(s)	2017 R	2016 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	18	15 639 518	5 485 345
Rental of facilities and equipment	19	286 591	316 805
Licences and permits	24	1 411 632	1 185 825
Commissions received	24	46 557	44 615
Other income	20	737 664	2 031 248
Interest received	21	6 622 982	5 566 736
Total revenue from exchange transactions		**24 744 944**	**14 630 574**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	22 786 913	17 000 150
Transfer revenue			
Government grants & subsidies	23	60 855 766	81 851 649
Fines, Penalties and Forfeits	24	105 200	33 300
Total revenue from non-exchange transactions		**83 747 879**	**98 885 099**
		24 744 944	14 630 574
		83 747 879	98 885 099
Total revenue	24	**108 492 823**	**113 515 673**
Expenditure			
Employee related costs	25	(48 740 150)	(42 570 086)
Remuneration of councillors	26	(4 157 107)	(3 992 576)
Administration		(100 228)	(206 243)
Depreciation and amortisation	27	(21 541 697)	(20 569 147)
Impairment loss		-	(4 698 330)
Finance costs	28	(2 395 193)	(1 238 389)
Lease rentals on operating lease		(501 443)	-
Debt Impairment	29	(12 751 350)	(3 973 336)
Repairs and maintenance	30	(1 356 500)	(3 254 762)
Bulk purchases	31	(8 531 698)	(7 954 154)
General expenses	32	(29 006 442)	(20 994 683)
Total expenditure		**(129 081 808)**	**(109 451 706)**
		-	-
Total revenue		108 492 823	113 515 673
Total expenditure		(129 081 808)	(109 451 706)
Operating surplus / (deficit)		**(20 588 985)**	**4 063 967**
Loss on disposal of assets and liabilities		(24 458 747)	(85 400)
Actuarial gains/losses	15	(53 000)	257 000
		(24 511 747)	**171 600**
Operating surplus/deficit		(24 511 747)	171 600
(Deficit) surplus before taxation		(45 100 732)	4 235 567
Taxation		-	-
Surplus / (deficit) for the year		**(45 100 732)**	**4 235 567**

* See Note 39

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2015	**338 158 697**	**338 158 697**
Changes in net assets		
Surplus / (deficit) for the year	4 235 567	4 235 567
Total changes	4 235 567	4 235 567
Restated* Balance at 01 July 2016	**342 393 943**	**342 393 943**
Changes in net assets		
Deficit for the year	(45 100 732)	(45 100 732)
Total changes	(45 100 732)	(45 100 732)
Balance at 30 June 2017	**297 293 211**	**297 293 211**

* See Note 39

Cash Flow Statement

	Note(s)	2017 R	2016 R
Cash flows from operating activities			
Receipts			
Sale of goods and services		39 730 406	17 030 141
Grants		60 899 676	81 854 390
Interest income		318 819	5 566 736
Other receipts		-	3 277 764
		100 948 901	107 729 031
Payments			
Employee costs		(51 683 257)	(46 562 662)
Suppliers		(35 370 198)	(43 518 706)
Finance costs		(2 395 193)	(5 651 227)
		(89 448 648)	(95 732 595)
Total receipts		100 948 901	107 729 031
Total payments		(89 448 648)	(95 732 595)
Net cash flows from operating activities	33	**11 500 253**	**11 996 436**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(13 569 929)	(29 559 476)
Proceeds from sale of property, plant and equipment	9	-	-
Purchase of other intangible assets	10	(35 106)	(170 886)
Proceeds from sale of other intangible assets	10	2	-
Purchases of heritage assets	11	(36 000)	-
Net cash flows from investing activities		**(13 641 033)**	**(29 730 362)**
Cash flows from financing activities			
Movement in other financial liabilities		(12 542)	(626 973)
Net finance lease liability (repaid)		(263 986)	(488 145)
Net cash flows from financing activities		**(276 528)**	**(1 115 118)**
Net increase/(decrease) in cash and cash equivalents		**(2 417 308)**	**(18 849 044)**
Cash and cash equivalents at the beginning of the year		2 155 926	21 004 969
Cash and cash equivalents at the end of the year	7	**(261 382)**	**2 155 925**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	18 263 470	(647 653)	**17 615 817**	15 639 518	**(1 976 299)**	1
Rental of facilities and equipment	359 000	-	**359 000**	286 591	**(72 409)**	
Licences and permits	3 800 000	(300 000)	**3 500 000**	1 411 632	**(2 088 368)**	2
Commissions received	-	100 000	**100 000**	46 557	**(53 443)**	3
Other income	12 209 900	(359 932)	**11 849 968**	737 664	**(11 112 304)**	4
Interest received	4 500 000	2 000 000	**6 500 000**	6 622 982	**122 982**	5
Total revenue from exchange transactions	**39 132 370**	**792 415**	**39 924 785**	**24 744 944**	**(15 179 841)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 000 000	-	**23 000 000**	22 786 913	**(213 087)**	6
Transfer revenue						
Government grants & subsidies	58 949 000	3 528 793	**62 477 793**	60 855 766	**(1 622 027)**	7
Fines, Penalties and Forfeits	31 800	-	**31 800**	105 200	**73 400**	
Total revenue from non-exchange transactions	**81 980 800**	**3 528 793**	**85 509 593**	**83 747 879**	**(1 761 714)**	
'Total revenue from exchange transactions'	39 132 370	792 415	**39 924 785**	24 744 944	**(15 179 841)**	
'Total revenue from non-exchange transactions'	81 980 800	3 528 793	**85 509 593**	83 747 879	**(1 761 714)**	
Total revenue	**121 113 170**	**4 321 208**	**125 434 378**	**108 492 823**	**(16 941 555)**	
Expenditure						
Employee related costs	(50 768 246)	(1 273 520)	**(52 041 766)**	(48 740 150)	**3 301 616**	8
Remuneration of councillors	(4 201 906)	(90 860)	**(4 292 766)**	(4 157 107)	**135 659**	9
Depreciation and amortisation	(15 000 000)	-	**(15 000 000)**	(21 541 697)	**(6 541 697)**	10
Finance costs	(701 720)	-	**(701 720)**	(2 395 193)	**(1 693 473)**	11
Bad debts written off	(12 000 000)	-	**(12 000 000)**	(12 751 350)	**(751 350)**	12
Bulk purchases	(7 500 000)	(1 000 000)	**(8 500 000)**	(8 531 698)	**(31 698)**	13
General expenses	(37 143 249)	(382 843)	**(37 526 092)**	(30 964 613)	**6 561 479**	14
Total expenditure	**(127 315 121)**	**(2 747 223)**	**(130 062 344)**	**(129 081 808)**	**980 536**	
	121 113 170	4 321 208	**125 434 378**	108 492 823	**(16 941 555)**	
	(127 315 121)	(2 747 223)	**(130 062 344)**	(129 081 808)	**980 536**	
Operating deficit	**(6 201 951)**	**1 573 985**	**(4 627 966)**	**(20 588 985)**	**(15 961 019)**	
Loss on disposal of assets and liabilities	-	-	**-**	(24 458 747)	**(24 458 747)**	17
Actuarial gains/losses	-	-	**-**	(53 000)	**(53 000)**	18
Gain on non-current assets held for sale or disposal groups	200 000	-	**200 000**	-	**(200 000)**	15
	200 000	**-**	**200 000**	**(24 511 747)**	**(24 711 747)**	
	(6 201 951)	1 573 985	**(4 627 966)**	(20 588 985)	**(15 961 019)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
	200 000	-	**200 000**	(24 511 747)	**(24 711 747)**	
Deficit before taxation	**(6 001 951)**	**1 573 985**	**(4 427 966)**	**(45 100 732)**	**(40 672 766)**	
Surplus before taxation	(6 001 951)	1 573 985	**(4 427 966)**	(45 100 732)	**(40 672 766)**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(6 001 951)**	**1 573 985**	**(4 427 966)**	**(45 100 732)**	**(40 672 766)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	100 000	-	**100 000**	184 246	**84 246**	1
Receivables from exchange transactions	-	-	**-**	-	**-**	2
Receivables from non-exchange transactions	-	-	**-**	-	**-**	3
VAT receivable	-	-	**-**	2 841 545	**2 841 545**	
Consumer debtors	20 000 000	-	**20 000 000**	15 998 785	**(4 001 215)**	4
Cash and cash equivalents	4 276 067	(2 713 508)	**1 562 559**	52 952	**(1 509 607)**	5
	24 376 067	**(2 713 508)**	**21 662 559**	**19 077 528**	**(2 585 031)**	
Non-Current Assets						
Investment property	75 000 000	(3 456 300)	**71 543 700**	71 543 700	**-**	6
Property, plant and equipment	259 571 233	43 642 087	**303 213 320**	269 894 503	**(33 318 817)**	7
Intangible assets	50 000	63 926	**113 926**	75 044	**(38 882)**	8
Heritage assets	-	-	**-**	36 000	**36 000**	9
	334 621 233	**40 249 713**	**374 870 946**	**341 549 247**	**(33 321 699)**	
Non-Current Assets	24 376 067	(2 713 508)	**21 662 559**	19 077 528	**(2 585 031)**	
Current Assets	334 621 233	40 249 713	**374 870 946**	341 549 247	**(33 321 699)**	
Total Assets	**358 997 300**	**37 536 205**	**396 533 505**	**360 626 775**	**(35 906 730)**	
Liabilities						
Current Liabilities						
Other financial liabilities	702 385	(215 118)	**487 267**	798 185	**310 918**	10
Finance lease obligation	-	-	**-**	288 874	**288 874**	11
Payables from exchange transactions	14 948 168	9 912 087	**24 860 255**	40 760 569	**15 900 314**	12
Employee benefit obligation	-	-	**-**	713 000	**713 000**	13
Unspent conditional grants and receipts	-	-	**-**	48 606	**48 606**	
Provisions	750 000	220 987	**970 987**	-	**(970 987)**	14
Consumer deposits	80 503	-	**80 503**	396 182	**315 679**	15
Bank overdraft	-	-	**-**	314 657	**314 657**	
	16 481 056	**9 917 956**	**26 399 012**	**43 320 073**	**16 921 061**	
Non-Current Liabilities						
Other financial liabilities	1 545 634	(522 126)	**1 023 508**	700 048	**(323 460)**	16
Finance lease obligation	-	-	**-**	42 647	**42 647**	17
Employee benefit obligation	8 000 000	2 255 542	**10 255 542**	9 518 000	**(737 542)**	
Provisions	7 500 000	-	**7 500 000**	9 752 795	**2 252 795**	
	17 045 634	**1 733 416**	**18 779 050**	**20 013 490**	**1 234 440**	
	16 481 056	9 917 956	**26 399 012**	43 320 073	**16 921 061**	
	17 045 634	1 733 416	**18 779 050**	20 013 490	**1 234 440**	
	-	-	**-**	-	**-**	
Total Liabilities	**33 526 690**	**11 651 372**	**45 178 062**	**63 333 563**	**18 155 501**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Assets	358 997 300	37 536 205	**396 533 505**	360 626 775	**(35 906 730)**	
Liabilities	(33 526 690)	(11 651 372)	**(45 178 062)**	(63 333 563)	**(18 155 501)**	
Net Assets	**325 470 610**	**25 884 833**	**351 355 443**	**297 293 212**	**(54 062 231)**	
Net Assets						
Accumulated surplus						
Reserves						
Accumulated surplus	325 470 610	25 884 833	**351 355 443**	297 293 212	**(54 062 231)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	57 664 170	(1 282 654)	**56 381 516**	39 730 406	**(16 651 110)**	1
Grants	58 949 000	3 533 794	**62 482 794**	60 899 676	**(1 583 118)**	2
Interest income	3 500 000	2 000 000	**5 500 000**	318 819	**(5 181 181)**	3
	120 113 170	**4 251 140**	**124 364 310**	**100 948 901**	**(23 415 409)**	
Payments						
Employee costs	(54 970 152)	(1 364 379)	**(56 334 531)**	(51 683 257)	**4 651 274**	
Suppliers	(44 643 249)	(1 382 843)	**(46 026 092)**	(35 370 198)	**10 655 894**	4
Finance costs	(259 700)	-	**(259 700)**	(2 395 193)	**(2 135 493)**	5
	(99 873 101)	**(2 747 222)**	**(102 620 323)**	**(89 448 648)**	**13 171 675**	
Total receipts	120 113 170	4 251 140	**124 364 310**	100 948 901	**(23 415 409)**	
Total payments	(99 873 101)	(2 747 222)	**(102 620 323)**	(89 448 648)	**13 171 675**	
Net cash flows from operating activities	**20 240 069**	**1 503 918**	**21 743 987**	**11 500 253**	**(10 243 734)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(20 674 850)	(1 043 911)	**(21 718 761)**	(13 641 035)	**8 077 726**	6
Proceeds from sale of property, plant and equipment	200 000	-	**200 000**	2	**(199 998)**	7
Net cash flows from investing activities	**(20 474 850)**	**(1 043 911)**	**(21 518 761)**	**(13 641 033)**	**7 877 728**	
Cash flows from financing activities						
Repayment of other financial liabilities	(442 020)	-	**(442 020)**	(12 542)	**429 478**	8
Net finance lease liability (repaid)	-	-	**-**	(263 986)	**(263 986)**	
Net cash flows from financing activities	**(442 020)**	**-**	**(442 020)**	**(276 528)**	**165 492**	
Net increase/(decrease) in cash and cash equivalents	(676 801)	460 007	**(216 794)**	(2 417 308)	**(2 200 514)**	
Cash and cash equivalents at the beginning of the year	4 299 012	-	**4 299 012**	2 155 926	**(2 143 086)**	
Cash and cash equivalents at the end of the year	**3 622 211**	**460 007**	**4 082 218**	**(261 382)**	**(4 343 600)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therfore as follows:

Standards Issued and Effective:
- GRAP 1 - Presenttion of Financial Statements
- GRAP 2 - Cash Flow Statements
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 5 - Borrowing costs
- GRAP 9 - Revenue from Exchange Transactions
- GRAP 11 - Construction Contracts
- GRAP 12 - Inventories
- GRAP 13 - Leases
- GRAP 14 - Events After Reporting Date
- GRAP 16 - Investment Property
- GRAP 17 - Property, Plant and Equipment
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets
- GRAP 21 - Impairment of Non-cash Generating Assets
- GRAP 23 - Revenue From Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of Cash Generating Assets
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets Held For Sale and Discontinued Opertions
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - Can Base Accounting Policy on, or early adopt:
- GRAP 18 - Segment Reporting
- GRAP 20 - Related Party Disclosures

Interpretations:
- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3 - Determining whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Evironmental Rehabilitation Funds
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and are rounded to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and other receivables

The municipality assesses its trade receivables and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Infrastructure	
• Tarred roads and paving	30 – 50 years
• Access roads	3 – 5 years
• Electricity	7 – 50 years
Other property, plant and equipment	
• Buildings and related items	5 - 30 years
• Recreational facilities and related items	5 - 30 years
• Halls and related items	5 - 30 years
• Parks and gardens and related items	5 - 30 years
• Plant, machinery and other equipment	5 - 25 years
• Furniture, fittings and office equipment	5 - 10 years
• Motor vehicles	5 - 10 years
Landfill sites	4 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Accounting Policies

1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.8 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Accounting Policies

1.9 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.9 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Long term borrowings	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

Accounting Policies

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.10 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.12 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

1.13 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.14 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Accounting Policies

1.15 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

1.16 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest method.

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognisd as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tarrif to each property that has improvements. The tarrifs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

1.16 Revenue from exchange transactions (continued)

Interest earned on investments is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tarrif charges

Revenue arising from the application of approved tarrifs is recognised when the service is rendered by applying the relevant authorised tarrif. This includes the issue of licenses and permits.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement , where such terms span over more than one financial year a straight-line basis is used.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Rates, including collection charges, penalties and interest

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.17 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations enbodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liabilitiy is recognised.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates.

These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as
part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification. Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant note 48 to the Annual Financial Statements.

Comparative information is not required.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.27 Changes in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirementsexcept to the extent that it is impracticable to determine the period specific effects or accumulative effect of the change in policy. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retospective restatement is practicable. Details of the changes in accounting policy are disclosed in note to the annual financial statements.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in accounting estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospecively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the Municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in note 39 to the financial statements.

1.28 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.29 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

1.30 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT.

Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

1.31 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not been recognised anywhere else in the financial statements.

At the end of each financial period, the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in note 36 - commitments in the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods:

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

	2017 R	2016 R

3. Inventories

Consumables	184 246	174 738

4. Receivables from exchange transactions

Trade debtors	41 278 645	35 203 766
Debt impairment	(31 917 957)	(30 122 255)
Sundry debtors	1 796 288	1 624 243
Unallocated receipts	57 496	31 677
Department of transport MVR	192 639	114 955
Sundry receipts default account	107 399	-
Sundry receipt default debtor	-	90 035
	11 514 510	**6 942 421**

30 June 2017

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	49 848	7 723	38 663	96 234
Residents and others	2 084 870	864 138	31 143 590	34 092 598
Industries	308 848	111 672	1 304 679	1 725 199
	2 443 566	**983 533**	**32 486 932**	**35 914 031**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	320 594	97 152	798 526	1 216 272
Refuse removal	2 088 183	877 648	31 307 582	34 273 413
Sundry	34 790	8 732	380 824	424 346
	2 443 567	**983 532**	**32 486 932**	**35 914 031**

30 June 2016

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +		Total
Government	92 212	36 259	1 114 064	-	1 242 535
Residents and others	887 406	389 758	25 984 271	-	27 261 435
Industries	296 208	184 383	6 219 205	-	6 699 796
	1 275 826	**610 400**	**33 317 540**	**-**	**35 203 766**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +		Total
Electricity	431 341	187 251	727 407	-	1 345 999
Refuse removal	822 311	311 896	20 870 404	-	22 004 611
Sundry	22 175	111 252	11 719 729	-	11 853 156
	1 275 827	**610 399**	**33 317 540**	**-**	**35 203 766**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	30 122 255	28 423 321
Provision for impairment	5 873 835	3 911 741
Amounts written off as uncollectible	(4 078 133)	(2 212 807)
	31 917 957	**30 122 255**

Notes to the Annual Financial Statements

	2017 R	2016 R

5. Receivables from non-exchange transactions

	2017	2016
Fines	200 200	99 700
Assessment rates	43 683 472	41 209 881
Debt impairment	(39 399 397)	(36 999 504)
	4 484 275	**4 310 077**

30 June 2017

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	72 140	25 248	632 488	729 876
Residents and others	3 326 912	1 302 031	36 869 454	41 498 397
Industries	359 613	143 530	3 256 461	3 759 604
	3 758 665	**1 470 809**	**40 758 403**	**45 987 877**

Consumer debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Rates	3 758 665	1 470 809	40 758 403	45 987 877

30 June 2016

Consumer debtors by debtor type	0-30 Days	60 Days	90 Days +	Total
Government	229 585	72 676	1 230 841	1 533 102
Residents and others	2 209 411	781 218	28 707 984	31 698 613
Industries	737 482	369 571	6 871 113	7 978 166
	3 176 478	**1 223 465**	**36 809 938**	**41 209 881**

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2017	2016
Opening balance	36 999 504	36 937 909
Provision for impairment	4 709 685	32 245
Amounts written off as uncollectible	(2 309 792)	29 350
	39 399 397	**36 999 504**

During the period errors noted have been correct under the comparitive refer to note 39 .

6. VAT receivable

	2017	2016
VAT	2 841 545	-

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C.

7. Cash and cash equivalents

Cash and cash equivalents consist of bank balances for current accounts and call deposit accounts:

	2017	2016
Bank balances	-	184 559
Short-term deposits	52 952	1 971 367
Bank overdraft	(314 657)	-
	(261 705)	**2 155 926**

	2017	2016
Current assets	52 952	2 155 926
Current liabilities	(314 657)	-
	(261 705)	**2 155 926**

	2017 R	2016 R

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2017	30 June 2016	30 June 2015	Cash book balances 30 June 2017	30 June 2016	30 June 2015
Standard Bank - 208720963 - 000 - Primary account	37 208	64 333	992 663	(314 657)	184 541	901 065
Standard Bank - 285973452	4 990	16 415	986	34 901	16 415	985
Standard Bank - 285946110	-	-	-	-	-	5 701
Standard Bank - 285977334	-	-	-	-	-	12 831
Standard Bank - 388520523 - 401	-	-	-	-	-	1 569
ABSA Bank - 9079485834	-	-	10 892	-	-	10 830
Standard Bank - 388528672 - 004	2 948	4 247	1 360	2 948	4 247	1 360
Standard Bank - 388526734 - 003	-	-	-	-	-	1 596
Standard Bank - 388527544 - 402	-	4 394	1 906	-	4 394	1 906
Standard Bank - 388523786 - 001	-	-	-	-	-	1 482
Standard Bank - 388529768 - 402	5 698	1 937 218	20 056 277	5 698	1 937 218	20 056 277
Standard Bank - 388528672 - 002	8 540	8 931	5 226	8 540	8 522	5 240
Standard Bank - 388523786 - 002	865	4 757	4 127	865	589	4 127
Total	**60 249**	**2 040 295**	**21 073 437**	**(261 705)**	**2 155 926**	**21 004 969**

8. Investment property

	2017 Cost / Valuation	2017 Accumulated depreciation and accumulated impairment	2017 Carrying value	2016 Cost / Valuation	2016 Accumulated depreciation and accumulated impairment	2016 Carrying value
Investment property	71 543 700	-	71 543 700	71 543 700	-	71 543 700

Reconciliation of investment property - 2017

	Opening balance	Total
Investment property	71 543 700	71 543 700

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	71 543 700	71 543 700

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

	2017	2016
	R	R

9. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	84 201 289	-	84 201 289	84 201 289	-	84 201 289
Buildings	130 407 460	(66 901 788)	63 505 672	133 846 746	(69 520 670)	64 326 076
Infrastructure	239 973 251	(139 782 782)	100 190 469	259 003 283	(140 092 390)	118 910 893
Other property, plant and equipment	11 529 871	(6 572 363)	4 957 508	12 991 324	(6 996 462)	5 994 862
Work in progress	14 257 484	-	14 257 484	25 757 481	-	25 757 481
Finance lease assets	1 443 220	(1 273 181)	170 039	1 443 220	(1 082 792)	360 428
Landfill site asset	9 521 012	(6 908 970)	2 612 042	9 521 012	(6 821 012)	2 700 000
Total	**491 333 587**	**(221 439 084)**	**269 894 503**	**526 764 355**	**(224 513 326)**	**302 251 029**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Land	84 201 289	-	-	-	-	-	84 201 289
Buildings	64 326 076	-	(249)	14 013 906	(11 578 759)	(3 255 302)	63 505 672
Infrastructure	118 910 893	-	-	10 958 874	(12 853 087)	(16 826 211)	100 190 469
Other property, plant and equipment	5 994 862	274 498	(204 000)	-	-	(1 107 852)	4 957 508
Work in progress	25 757 481	13 472 783	-	-	(24 972 780)	-	14 257 484
Finance lease asset	360 428	-	-	-	-	(190 389)	170 039
Landfill site asset	2 700 000	-	-	-	-	(87 958)	2 612 042
	302 251 029	**13 747 281**	**(204 249)**	**24 972 780**	**(49 404 626)**	**(21 467 712)**	**269 894 503**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers received	Transfers	CRC movements	Depreciation	Impairment loss	Total
Land	84 201 289	-	-	-	-	-	-	84 201 289
Buildings	66 820 831	537 968	36 758	-	-	(3 069 481)	-	64 326 076
Infrastructure	128 865 935	-	6 085 472	(137 629)	(824 661)	(15 078 224)	-	118 910 893
Other property, plant and equipment	4 971 188	2 437 368	-	-	-	(1 413 694)	-	5 994 862
Work in progress	5 295 571	26 584 140	-	(6 122 230)	-	-	-	25 757 481
Finance lease assets	717 097	-	-	-	-	(356 669)	-	360 428
Landfill site asset	3 310 543	4 641 716	-	-	-	(553 929)	(4 698 330)	2 700 000
	294 182 454	**34 201 192**	**6 122 230**	**(6 259 859)**	**(824 661)**	**(20 471 997)**	**(4 698 330)**	**302 251 029**

Assets subject to finance lease (Net carrying amount)

Finance lease assets	170 039	360 428

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

	2017	2016
	R	R

10. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	205 992	(130 948)	75 044	288 337	(174 411)	113 926

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Impairment loss	Total
Computer software	113 926	35 106	(2)	(73 986)	75 044

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	40 186	170 886	(97 146)	113 926

11. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	36 000	-	36 000	-	-	-

Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Art Collections, antiquities and exhibits	-	36 000	36 000

12. Other financial liabilities

	2017	2016
At amortised cost		
Amatole District Municipality Debt arrangement	310 918	-
During the 2013/2014 financial year a debt arrangement was entered into whereby the Municipality undertakes to repay monthly instalments of R98 497 over and above the continuing monthly charge until such time as the outstanding balance is repaid. This arrangement does not bear interest.		
Long term borrowings	1 187 315	1 510 775
The DBSA loan bears interest at 13% and is redeemable on 31 March 2019.		
Total other financial liabilities	**1 498 233**	**1 510 775**

Notes to the Annual Financial Statements

	2017 R	2016 R
12. Other financial liabilities (continued)		
Non-current liabilities		
At amortised cost	700 048	1 023 508
Current liabilities		
At amortised cost	798 185	487 267

13. Finance lease obligation

	2017 R	2016 R
Minimum lease payments due		
- within one year	384 913	389 750
- in second to fifth year inclusive	-	384 913
	384 913	774 663
less: future finance charges	(53 392)	(179 156)
Present value of minimum lease payments	**331 521**	**595 507**
Present value of minimum lease payments due		
- within one year	288 874	263 987
- in second to fifth year inclusive	42 647	331 520
	331 521	**595 507**
Non-current liabilities	42 647	331 520
Current liabilities	288 874	263 987
	331 521	**595 507**

It is municipality policy to lease certain equipment under finance leases.

The lease terms of finance lease agreements vary from three to five years.

Interest rates are fixed at the contract date. Leases escalate at 10% p.a and no arrangements have been entered into for contigent rent. The interest rate implicit used ranges between 24.56% - 49.14% per annum.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

Depreciation and finance charges relating to leased assets are included in the total depreciation and finance charges respectively.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

	2017 R	2016 R
Rand	-	595 507

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 40.

The fair value of finance lease liabilities approximates their carrying amounts.

Notes to the Annual Financial Statements

	2017 R	2016 R

14. Payables from exchange transactions

	2017 R	2016 R
Trade payables	28 245 387	14 625 091
Payments received in advance	3 461 210	2 949 042
Accrued leave pay	2 830 066	2 168 861
Accrued bonus	1 223 805	1 173 752
Deposits received	396 182	338 430
Salary suspense account	4 153 300	1 546 455
Retentions	846 802	1 125 601
	41 156 752	**23 927 232**

15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value	2017 R	2016 R
Present value of the defined benefit obligation-wholly unfunded	(7 350 000)	(6 741 000)
Current service costs	(707 000)	(738 000)
Interest cost	(912 000)	(752 000)
Net acturial gains or (losses) not recognised	(53 000)	257 000
Benefits paid	405 000	248 000
Long service award	(1 614 000)	(1 238 000)
	(10 231 000)	**(8 964 000)**

	2017 R	2016 R
Non-current liabilities	(9 518 000)	(8 257 000)
Current liabilities	(713 000)	(707 000)
	(10 231 000)	**(8 964 000)**

Changes in the present value of the defined benefit obligation are as follows:

	2017 R	2016 R
Opening balance	7 350 000	6 741 000
Current Service Cost	344 000	513 000
Interest Cost	737 000	632 000
Benefits paid	(222 000)	(179 000)
Actuarial Gain	(13 000)	(357 000)
	8 196 000	**7 350 000**

Key assumptions used

Assumptions used at the reporting date:

	2017	2016
Discount rates used	10.5%	6.97 - 10.38%
Consumer price inflation	8,11 %	5,27 %
Medical aid contribution inflation	9,11 %	6,27 %
Net effective discount rate	1,27 %	4,11 %

The basis used to determine the discount rates and CPI assumptions is the nominal and real zero curves as at 30 June 2017 supplied by the JSE.

Notes to the Annual Financial Statements

	2017 R	2016 R

15. Employee benefit obligations (continued)

Other assumptions

Mortality rate

The value of the liabilities is particularly sensitive to the assumed rate of healthcare cost inflation. The table below sets out the sensitivity of the valuation result due to higher and lower mortality rates by increasing and decreasing mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation Assumption	+20% Mortality rate
Total Accrued Liability	8 775 000	8 196 000	7 709 000
Interest Cost	898 000	837 000	787 000
Service Cost	345 000	321 000	300 000
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

The effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total Accrued Liability	7 547 000	8 196 000	8 845 000
Interest Cost	770 000	837 000	904 000
Service Cost	305 000	321 000	332 000
	-	-	-

Long service award inflation:

	1% decrease - normal salary inflation R	**Valuation Assumption R**	**1% increase - normal salary inflation R**
Defined benefit obligation	1 907 000	2 035 000	2 178 000
Interest Costs	204 000	218 000	234 000
Service Cost	364 000	392 000	424 000

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	48 606	-
Finance Management Grant	-	-
EPWP Grant	-	64
INEG Grant	-	4 632
	48 606	**4 696**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

	2017 R	2016 R

17. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	9 167 022	585 773	9 752 795

Reconciliation of provisions - 2016

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4 229 258	4 641 716	296 048	9 167 022

Environmental rehabilitation provision

The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal. As at 30 June 2017, the landfill site was closed and the provision for the landfill site is based on the current costs to rehabilitate the landfill site over the remaining 2 years to complete these closing procedures.

18. Service charges

	2017	2016
Sale of electricity	6 381 511	4 174 159
Refuse removal	9 258 007	1 311 186
	15 639 518	**5 485 345**

19. Rental of facilities and equipment

	2017	2016
Premises		
Premises	175 655	127 325
Facilities and equipment		
Rental of facilities	110 936	189 480
Premises	175 655	127 325
Garages and parking	-	-
Facilities and equipment	110 936	189 480
	286 591	**316 805**

20. Other income

	2017	2016
Building plan fees	159 164	247 110
LG SETA training allowance	72 160	62 450
Clearance fees	13 749	8 397
Sundry revenue	146 365	1 420 324
Basic electricity	173 040	117 198
Connection fees - electricity	169 756	173 469
Burial fees	2 948	2 300
Enchroachments	482	-
	737 664	**2 031 248**

Notes to the Annual Financial Statements

	2017 R	2016 R

21. Interest received

Interest revenue		
Interest from investments	318 819	896 313
Interest charged on trade and other receivables	6 304 163	4 670 423
	6 622 982	**5 566 736**
	-	-
	6 622 982	5 566 736

22. Property rates

Rates received

Property rates	23 710 280	17 944 888
Less: Discounts allowed	(923 367)	(944 738)
	22 786 913	**17 000 150**

Valuations

Commercial	28 310 000	184 566 000
Residential	3 049 373 414	2 513 552 000
Schools	42 630 000	42 010 000
Small holdings and farms	129 082 000	1 020 352 557
State	208 279 130	51 284 000
Vacant	922 995 873	167 832 045
	4 380 670 417	**3 979 596 602**

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 01 September 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions

Rates are levied on a monthly basis.

23. Government grants and subsidies

Unconditional grants		
Equitable share	39 452 000	42 202 000
Library Subsidy	410 000	410 000
IEC Election Grant	24 374	30 875
Treasury Grant	1 931 302	1 343 406
	41 817 676	43 986 281
Capital grants		
Municipal Infrastructure Grant	12 023 394	33 065 000
Municipal Systems Improvement Grant	-	930 000
Finance Management Grant	2 010 000	1 875 000
EPWP Grant	1 000 064	1 000 000
INEG Grant	4 004 632	995 368
	19 038 090	37 865 368
	60 855 766	**81 851 649**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	40 600 468	43 986 281

Notes to the Annual Financial Statements

	2017 R	2016 R
23. Government grants and subsidies (continued)		
Unconditional grants received	21 043 264	37 865 368
	61 643 732	**81 851 649**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. There are no conditions attached to the equitable share and as such is recognised as revenue when received.

Municipal Infrastructure Grant

	2017 R	2016 R
Balance unspent at beginning of year	-	20 000 000
Current-year receipts	12 072 000	13 065 000
Conditions met - transferred to revenue	(12 023 394)	(33 065 000)
	48 606	**-**

Conditions still to be met - remain liabilities (see note 16).

The grant is allocated for the construction of infratructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

INEG Grant

	2017 R	2016 R
Balance unspent at beginning of year	4 632	-
Current-year receipts	4 000 000	1 000 000
Conditions met - transferred to revenue	(4 004 632)	(995 368)
	-	**4 632**

Conditions still to be met - remain liabilities (see note 16).

The Minerals and Energy Grant is an provided by the Department of Energy to facilitate for the upgrading of electrical infrastructure within the municipality.

Financial Management Grant

	2017 R	2016 R
Current-year receipts	2 010 000	1 875 000
Conditions met - transferred to revenue	(2 010 000)	(1 875 000)
	-	**-**

Conditions met.

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

EPWP Grant

	2017 R	2016 R
Balance unspent at beginning of year	64	64
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 064)	(1 000 000)
	-	**64**

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Annual Financial Statements

	2017 R	2016 R

24. Revenue

Service charges	15 639 518	5 485 345
Rental of facilities and equipment	286 591	316 805
Licences and permits	1 411 632	1 185 825
Commissions received	46 557	44 615
Other income	737 664	2 031 248
Interest received	6 622 982	5 566 736
Property rates	22 786 913	17 000 150
Government grants & subsidies	60 855 766	81 851 649
Fines, Penalties and Forfeits	105 200	33 300
	108 492 823	**113 515 673**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	15 639 518	5 485 345
Rental of facilities and equipment	286 591	316 805
Licences and permits	1 411 632	1 185 825
Commissions received	46 557	44 615
Other income	737 664	2 031 248
Interest received	6 622 982	5 566 736
	24 744 944	**14 630 574**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	22 786 913	17 000 150
Transfer revenue		
Government grants & subsidies	60 855 766	81 851 649
Fines, Penalties and Forfeits	105 200	33 300
	83 747 879	**98 885 099**

Notes to the Annual Financial Statements

	2017 R	2016 R

25. Employee related costs

Basic	34 344 876	29 976 040
Bonus	2 532 313	2 218 548
Medical aid - company contributions	2 211 678	2 236 612
UIF	255 278	235 510
SDL	389 974	358 885
Other payroll levies	19 442	19 202
Leave pay provision charge	668 053	722 467
Pension	4 109 415	3 441 094
Travel, motor car, accommodation, subsistence and other allowances	1 769 240	1 568 169
Overtime payments	989 974	768 191
Long-service awards	180 000	156 000
Acting allowances	649 919	699 182
Housing benefits and allowances	619 988	349 186
Post employment benefits expense - Defined benefit	-	(179 000)
	48 740 150	**42 570 086**

Include in compensation for employees above is remuneration of senior management disclosed per individual portfolios below:

Remuneration of Municipal Manager - I Sikhulu-Nqwena

Annual Remuneration	776 481	361 850
Travel, motor car, accommodation, subsistence and other allowances	79 550	85 619
Performance Bonuses	120 000	30 000
Acting allowances	-	77 579
Contributions to UIF, Medical and Pension Funds	112 714	-
Housing subsidy	125 936	-
	1 214 681	**555 048**

Remuneration of Chief Finance Officer - M L Mosala

Annual Remuneration	904 849	848 734
Travel, motor car, accommodation, subsistence and other allowances	18 000	18 000
Contributions to UIF, Medical and Pension Funds	-	-
Service bonus	68 516	65 604
	991 366	**932 338**

Remuneration of Director: Corporate Services - I Sikhulu-Nqwena

Annual Remuneration	-	425 696
Travel, motor car, accommodation, subsistence and other allowances	-	119 867
Acting allowance	-	-
Contributions to UIF, Medical and Pension Funds	-	-
	-	**545 563**

Remuneration of Director: Technical Services - JF Van Dalen

Annual Remuneration	637 166	617 051
Travel, motor car, accommodation, subsistence and other allowances	161 545	222 845
Contributions to UIF, Medical and Pension Funds	115 788	95 355
Cellphone allowance	40 866	-
	991 366	**935 251**

Remuneration of Director - Corporate Services

	2017 R	2016 R

25. Employee related costs (continued)

Acting allowance	80 376	-
Travel, motor car, accommodation, subsistence and other allowances	-	-
	80 376	**-**

This acting allowance amounting to R80 376 was paid to Mr Douglas and Ms Dumalisile. It includes a back pay paid to Mr Douglas, one as a result of the anniversary increment of section 56 managers.

26. Remuneration of councillors

Mayor/Speaker	612 183	734 233
Councillors	2 523 456	2 279 407
Councillors' allowances	982 286	961 411
	4 117 925	**3 975 051**

Remuneration of Mayor (Speaker) - N Tekile		
Salary	88 414	532 324
Allowances	16 826	201 909
	105 240	**734 233**

Remuneration of Mayor (Speaker) - L.D. Tshetsha		
Salary	443 603	-
Allowances	168 580	-
	612 183	**-**

Chief Whip - Ndabambi-Gavumente L		
Salary	206 673	205 616
Allowances	85 670	93 407
	292 343	**299 023**

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the constitution.

In-kind benefits

The Mayor is a full-time councillor. The mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.

The Mayor holds the position of the speaker as well.

27. Depreciation and amortisation

Property, plant and equipment	21 467 711	20 472 001
Intangible assets	73 986	97 146
	21 541 697	**20 569 147**

28. Finance costs

Non-current borrowings	173 945	69 185
Finance leases	723 475	228 879
Interest from fair value adjustments	1 497 773	940 325
	2 395 193	**1 238 389**

Notes to the Annual Financial Statements

	2017 R	2016 R
29. Debt impairment		
Debt impairment	12 751 350	3 973 336
30. Repairs and Maintenance		
Repairs and maintenance on different class of assets		
Land and buildings	263 831	151 073
Infrastructure - electricity	225 831	538 234
Infrastructure - road transport	273 701	1 557 264
Infrastructure - sanitation	138 648	67 101
Infrastructure - other	14 000	55 986
Other assets	17 152	15 032
Community assets	17 925	3 000
Specialised vehicles	405 412	867 072
	1 356 500	**3 254 762**
31. Bulk purchases		
Electricity	8 531 698	7 954 154

Notes to the Annual Financial Statements

	2017 R	2016 R
32. General expenses		
Advertising	664 356	689 123
Assets expensed	96 198	1
Auditors remuneration	3 292 092	3 415 701
Bank charges	214 173	182 135
Cleaning	74 737	43 607
Commission paid	77 600	59 396
Computer expenses	11 363	-
Conferences and seminars	156 873	107 673
Consulting and professional fees	6 620 883	3 686 255
Electricity	168 696	321 482
Entertainment	202 168	149 446
Finance Management Grant	422 017	939 679
Free basic electricity	1 252 041	446 720
Fuel and oil	1 079 707	852 478
Insurance	377 441	286 517
LED projects	401 032	477 095
Legal expenses	2 011 589	822 687
Life saving services	296 487	285 600
Magazines, books and periodicals	238 809	-
Membership fees	105 899	128 748
Motor vehicle expenses	406 301	82 398
Other expenses	1 870 858	1 130 661
Postage and courier	322 662	261 524
Project maintenance costs	152 544	118 342
Promotions and sponsorships	85 846	45 910
Protective clothing	241 480	275 117
Refuse	74 310	31 860
Software expenses	606 171	493 362
Staff welfare	112 060	980
Subscriptions and membership fees	523 000	468 750
Telephone and fax	3 191 275	1 693 913
Training	214 292	424 498
Travel - local	437 979	307 237
Valuaton costs	320 318	624 838
Ward Committee expense	86 222	85 772
Ward Council expense	251 814	-
Water	2 345 149	2 055 178
	29 006 442	**20 994 683**

	2017 R	2016 R

33. Cash generated from operations

	2017 R	2016 R
(Deficit) surplus	(45 100 732)	4 235 567
Adjustments for:		
Depreciation and amortisation	21 541 697	20 569 147
Loss on sale of assets and liabilities	24 458 747	85 400
Acturial (gain)/loss	53 000	(257 000)
Discounts allowed	-	5 874 889
Landfill site non cash movement	585 773	(4 641 716)
Finance costs - Finance leases	-	228 879
Finance costs: provisions	-	(1 281 048)
Impairment loss on assets	-	4 698 330
Debt impairment	12 751 350	3 973 336
Movements in employee benefit obligation	1 214 000	-
Movements in provisions	-	1 281 048
Other non-cash items	-	66 112
Changes in working capital:		
Inventories	(9 508)	(174 738)
Receivables from exchange transactions	(4 572 089)	(994 369)
Debt Impairment	(12 751 350)	(3 973 336)
Other receivables from non-exchange transactions	(174 198)	(487 648)
Payables from exchange transactions	17 229 519	3 078 365
VAT	(3 769 866)	(289 414)
Unspent conditional grants and receipts	43 910	(19 995 368)
	11 500 253	**11 996 436**

34. Financial instruments disclosure

Categories of financial instruments

30 June 2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	11 514 510	11 514 510
Other receivables from non-exchange transactions	-	4 484 275	4 484 275
Vat receivable	-	2 841 545	2 841 545
Cash and cash equivalents	52 952	-	52 952
	52 952	**18 840 330**	**18 893 282**

Financial liabilities

	At fair value	At amortised cost	Total
Other financial liabilities	-	1 498 233	1 498 233
Trade and other payables from exchange transactions	-	41 156 751	41 156 751
Unspent conditional grants	-	48 606	48 606
Bank overdraft	314 657	-	314 657
	314 657	**42 703 590**	**43 018 247**

30 June 2016

Financial assets

Notes to the Annual Financial Statements

	2017 R	2016 R

. Financial instruments disclosure (continued)

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	6 942 421	6 942 421
Other receivables from non-exchange transactions	-	4 310 077	4 310 077
Cash and cash equivalents	2 155 926	-	2 155 926
	2 155 926	**11 252 498**	**13 408 424**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1 510 775	1 510 775
Trade and other payables from exchange transactions	23 927 238	23 927 238
Taxes and transfers payable (non-exchange)	4 696	4 696
Vat payable	928 321	928 321
	26 371 030	**26 371 030**

35. Auditors' remuneration

	2017	2016
Fees	3 292 092	3 415 701

36. Commitments

Authorised expenditure

	2017	2016
Already contracted for but not provided for		
• Property, plant and equipment	8 130 704	33 840
• Investment property	33 840	565 755
• Other commitments	17 542 611	11 574 049
	25 707 155	**12 173 644**

	2017	2016
Total capital commitments		
Already contracted for but not provided for	25 707 155	16 971 816

This committed expenditure relates to plant and equipment and other expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant funds.

37. Contingencies

	2017	2016
Contingent liabilities		
Jet Vest/Great Kei Municipality - High court application to set aside deed of sale	1 000 000	1 000 000
Great kei vs loden - Set down for trial.	400 000	-
Nogoduka vs Great Kei - Set down for trial.	100 000	-
VAN DALEN - Labour matter , former employee is challenging his suspension in Grahamstown HC	496 000	300 000
SARS vs Great Kei - Appeal lodged by the service provider MaxProf representing the municipality for VAT matter.	2 032 064	-
Applications to High Court for compliance/demolition orders for non-compliance building regulations (Gerber/Opi Kopi, Morgan and Trudy Thomas)	-	250 000
	4 028 064	**1 550 000**

Uncertainty exists as to the timing or amount of these contingent liabilities and assets.

	2017	2016
	R	R

38. Related parties

Relationships

Councillors	Refer to the list of councillors disclosed under general information. Councillors of the Municipality have relationships with businesses as indicated below:
Nosipho Ngabeyewa	Member of Thunga Trading Co Opt

Councillors, executive management and staff received salaries for services rendered relating to their employment within the Municipality, refer notes 25 and 26. No other related party transactions took place during the year.

39. Prior year adjustments

Property, plant and equipment

During the verification process of infrastructure assets in current period, it was noted that certain assets components were identified and verified which were not included in the asset register in prior years. Therefore this adjustment was needed to correct the errors and account for the omitted component of property, plant and equipment .

Furthermore, during the process of verifying and reconciling of the prepaid meters, it was noted that certain prepaid meters were replaced due faultiness or tampering. These assets were componentized and this lead to some of the components to be restated at replacement costs. As such, the cost and also the accumulated depreciation of the abovementioned assets were corrected.

The opening balances of PPE items were restated based on a comprehensive review performed.

Accumulated surplus

During the period, errors were noted relating to the prior periods. The property, plant and equipment errors noted affected the prior year accumulated surplus balance to be incorrect. The balance of the prior year accumulated surplus has been corrected by the effects of the correction of prior period errors as detailed below.

Statement of financial position

Property, plant and equipment		
Opening previously stated	-	303 213 320
Decrease in cost due to gains	-	174 038
Decrease in Acc depr due to disposal	-	(36 409)
Gains during verification	-	137 629
Decrease in cost due to Change in CRC	-	(2 444 267)
Decrease in Acc depr due to change in CRC	-	1 344 347
Change in CRC value	-	(1 099 920)
Nett effect - disposal	-	(962 291)
Closing restated as at 30 June 2016	-	**302 251 029**
Accumulated surplus		
Previously stated	-	343 356 549
Net decrease due to property,plant and equipment	-	(962 291)
Other rounding off difference	-	6
	-	**342 394 264**

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the finance department with the assistance of operating devisions, under policies approved by the accounting officer.

40. Risk management (continued)

Liquidity risk

The Municipality's risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of financial assets respresent the Municipality's maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	30June 2017	30 June 2016
Trade and other receivables from exchange transactions	11 514 510	6 942 421
Receivables from exchange transactions	4 484 275	4 310 077
Cash and cash equivalents	52 952	2 155 926
Bank overdraft	(314 657)	-

Market risk

Market risk is the the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Municipality is exposed to market risk through interest rate risk.

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents, trade receivables from exchange transactions and receivables from non-exchange transactions. The Municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end, financial liabilities exposed to interest rate risk include those other financial liabilities disclosed in note 12 to the annual financial statements.

Balances with banks, deposits, call accounts and current accounts attract interest at rates that vary with the South African prime rate. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the statement of financial performance.

Trade debtors in arrears are charged interest at a rate of 1% per month.

Surplus funds are invested with banks in interest bearing accounts refer note 7 to the annual financial statements.

41. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

42. Events after the reporting date

No events having financial implications are requiring disclosure in the annual financial statements occurred subsequent to 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

43. Unauthorised expenditure

Opening balance	10 087 564	29 277 614
Unauthorised expenditure for the year	28 258 086	6 105 852
Less: Amounts written off	-	(25 295 902)
	38 345 650	**10 087 564**

Incident - this is mainly due to inadequate budgeting and monitoring of expenditure. These amounts may not be recoverable as they relate to non-cash expenditure items.

The Council resolved to send the expenditure to MPAC for further investigation.

44. Fruitless and wasteful expenditure

Opening balance	29 487	116 158
Fruitless and wasteful expenditure in the current year	597 712	38 464
Less: Amounts written off	-	(125 135)
	627 199	**29 487**

Incident - this is mainly due to interest and penalties charged because of late payments of suppliers.

45. Irregular expenditure

Opening balance	12 214 933	12 716 230
Add: Irregular Expenditure - current year	1 553 438	2 772 956
Less: Amounts written off	-	(3 274 253)
	13 768 371	**12 214 933**

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviation in terms of Clause 36(1)(a)	Corporate Services	Technical and Community Services	Budget and Treasury Office	Strategic Department	Total
Clause 36(1)(a)(v) Impractical or impossible	46 580	-	-	-	46 580
Clause 36(1)(a)(ii) Single Provider	-	280 064	28 218	-	308 282
Clause 36(1)(a)(i) Emergency	40 292	212 530	-	-	252 822
	86 872	**492 594**	**28 218**	**-**	**607 684**

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	579 786
Current year subscription / fee	500 000	500 000
Amount paid - current year	(250 000)	(1 079 786)
	250 000	**-**

Material losses

Distribution losses	1 819 492	2 847 453

Audit fees

Opening balance	2 024 549	3 303 074
Current year subscription / fee	3 752 985	3 905 185
Amount paid - current year	(300 896)	(3 840 304)
Grants received	(1 931 302)	(1 343 406)
	3 545 336	**2 024 549**

PAYE and UIF

Opening balance	507 976	(795)
Current year subscription / fee	9 547 624	5 961 156
Amount paid - current year	(7 832 949)	(5 452 385)
	2 222 651	**507 976**

Pension and Medical Aid Deductions

Opening balance	829 118	7 019
Current year subscription / fee	10 507 349	8 694 826
Amount paid - current year	(8 475 064)	(7 872 727)
	2 861 404	**829 118**

VAT

VAT receivable	2 841 545	-
VAT payable	-	928 321
	2 841 545	**928 321**

The municipality is on a cash or payment basis for VAT purposes and is classified as Category C. .

48. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

Revenue from exchange transactions

48. Budget differences (continued)

1. Service Charges – are lower than they were anticipated by **R**1 976 299 and this is due to low revenue collection on prepaid sales.
2. Licenses and permits are budgeted for at **R**3 500 000, the actual received for this service is **R**1,411 632 which is **R**2 088 368 less than it was budgeted to be received. This is due to reduction of classes for drivers licence testing and learners testing.
3. Commission received – the budget for commission was anticipated more than the amount received.
4. Other income received is below what was budgeted for by **R**11 122 304 due to over budgeting on some of items under this vote, vat refunds not received this year due to pending investigation with SARS.
5. Interest received – Interest has been under budgeted by **R**122 98**2 ,** the budget will be rectified.

Revenue from non-exchange transactions

6. Property rates are over budget by **R213 087** which is only 1% difference from revenue received.
7. Government grants and subsidies , over budgeted due to grants that are not gazetted,

Expenditure

8. Employee related costs are **R**3,301 616 below budget due to the higher than expected vacancy rate during the period. There were also vacant funded positions that were not filled during this period.
9. Remuneration of councillors is **R**135 659 below budget, the variance is only 3% of the budgeted amount.
10. Depreciation and amortisation is **R**6 541 697 under budget, and this is due to depreciation increase on all components of assets e.g infrastructure.
11. Finance costs are **R**1 693 473 over budget, this is due to finance costs on leases
12. Bad debts written off are **R**751 350 over budget, municipality has anticipated more on this item, with the anticipation that more debtors will pay accounts on time.
13. Bulk electricity is **R**31 698 over budget, this is due to lower than expected usage of electricity during the year.
14. General Expenses are **R**6 561 479 below budget, due to a lower than expected expenditure during the year caused by cash flow problems, but the increase is due to accruals raised at year end.
15. Loss on disposal of assets and liabilities is **R**24.2m over budget, this was not budgeted for in the current year..

Statement of Financial Position

Assets

1.Inventories – the municipality has under budgeted for inventories because on budget preparation stock levels at year end were taken into account.
2. Receivables from exchange transactions – These were not budgeted for in the correct line item during the financial year.
3. Receivables from non-exchange transactions - These were not budgeted for in the correct line item during the financial year.
4. Consumer debtors – revenue from exchange and non-exchange is under budget by **R**4 001 215**.**
5. Cash and cash equivalent is below budget by **R**1 509 607 compared to previous year, during the year the municipality had cashflow constraints.
6. Investment properties – The municipality updated its asset register and there were no major movements in investment properties.
7. Property, Plant & Equipment – The actual is lower than budget by R33 318 818 . This is due to assets sold during the year.
9. Heritage assets - No budget for this line item, there were additions during the year.

Liabilities

Current Liabilities

10. Other Financial Liabilities - the actual is above the budget due to other municipal liabilities.
11. Finance lease obligation – there was no budget for leases.
12. Payable from exchange transactions – Payable from exchange are above the budget due to non payment of creditors on time because of cash flow constraints.
13. Employee benefit obligation – not budgeted for, the obligation is not considered during the budget process.
14. Provisions, there are no movements in the provisions during the year.
15. Consumer deposits, the movement in the consumer deposits was more than what was expected.

Non-Current Liabilities

16. Other financial liabilities – Actual is less than the budget, due to a decrease in the amount for long term loan.
17. Finance lease obligation and employee benefit obligation – not budgeted for during budget process year.

48. Budget differences (continued)
Cash Flow Statement

1.Sale of goods and services – actual is less than budget, there is a high rate of non – payments of municipal accounts by customers.
2. Grants - were received in full during the year, however the difference is due to amount of MIG that was to be spent on MIG accruals and retention.
3.Interest Income – actual is lower than budget because of the over budgeting for interest from debtors.
4. Suppliers - Actual is lower than budget because of the over budgeting for interest from debtors .
5. Finance costs – Actual is over budget due to finance costs charged on late payment of DBSA loan.
6. Purchase of Property Plant and Equipment – Actual is less than budget due to financial constraints the municipality experienced during the year.
7. Proceeds from sale of assets – there was no movements.
8. Repayment of other financial liabilities – the actual is lower than the budget .